

## GST & Demonetisation Helping MSMEs to Move into Formal Economy, Enabling Easy Access to Credit - A Survey by Vistaar



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The Government's move to demonetise high-value currency, announced last year, was meant to root out unaccounted wealth, stem terror financing and curb counterfeiting. 08<sup>th</sup> November, 2017 marks the first anniversary of demonetisation, a step that affected most of the MSMEs who largely deal in cash but at the same time have pushed to think towards moving to banking and cashless modes.

Another historic move was the roll-out of GST (Goods & Services Tax) w.e.f. 01<sup>st</sup> July, 2017 and from then India joined the list of ~140 plus developed and emerging economies which have already implemented such unified tax rule. Although, there have been some challenges being faced by the MSMEs as they were unprepared to get accustomed to the new tax regime.

To understand the impact of GST since its roll-out and also impact of demonetisation post one year of announcement, we conducted field surveys with the help of our staff in November, 2017 who covered around 900 MSMEs spread across 90 villages/towns in 11 states. Of the total sample, ~38% were non-customers. Here below are some important findings of the surveys-

### Impact of GST on MSMEs:

- With the help of tax experts, 64% of respondents felt that the process of GST registration was easy when compared to the earlier indirect taxes such as VAT, Service Tax, etc. And more than half of the respondents could complete the registration process within 15 days.
- 57% said that additional requirements such as filing of returns on frequent basis is difficult.
- 64% of the businesses had to incur additional cost on technology in terms of systems, software and other resources, resulting in the requirement of working capital.
- Profit levels of 46% businesses increased due to factors such as input tax credit & lower transportation cost. Around 80% of the respondents switched to GST registered suppliers either fully or partially to gain the benefits of input tax credit.
- 68% of the respondents expects that their business/sales volume to grow in next one year with the expectation of higher demand from consumers' side and further decrease in tax rates.

### One Year of Demonetisation - What MSMEs feel now? :

- Post announcement of demonetisation, 1/5<sup>th</sup> of the businesses were down.
- 46% of the businesses recovered only after four months of demonetisation.
- Banking & digital mode gaining prominence for making payments to suppliers. Around 68% of the respondents are currently making payments through banking & digital modes.
- But cash is still widely preferred while accepting payments from customers. ~44% still accepts only cash.
- ~60% feels that cashless transactions are easing their business and would like to completely move to cashless mode in future.

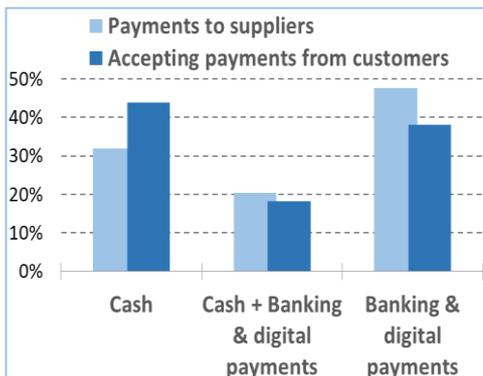
Although there was some pain felt among MSMEs post demonetisation and roll-out of GST, majority of the businesses support the initiatives. Both these initiatives could result in a wider tax base and major shift from informal to formal economy, and should benefit business climate and financial system in the long-run. **Greater participation in the formal economy would also bestow the availability of formal documents and provide huge opportunity to lend.**

### Impact on MSMEs Post One Year of Demonetisation

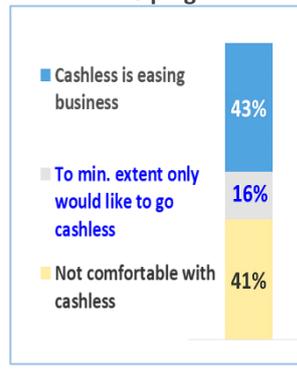
Time taken to get back to normalcy



Mode of transaction



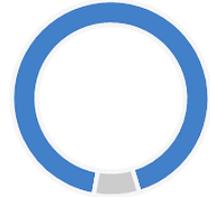
Whether cashless is helping



### Survey on Impact of GST on

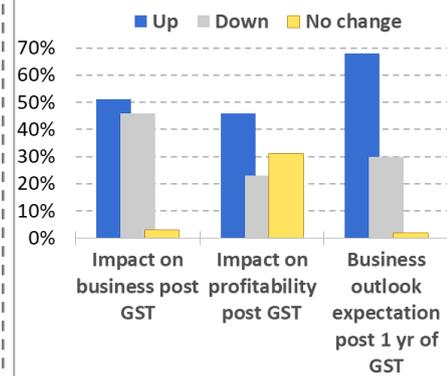
#### MSMEs

Sought help of tax experts for registration, 93%



Didn't take help, 7%

For 63% Cash-flow adversely affected  
Not affected for 37%



68% welcome GST



20% are sad



12% Can't say

### Snapshot - November, 2017

States	13
Branches	215
Districts	146
Customers	58,193
Employees	2,004
Disbursements (YTD) (₹ Crs.)	397
Portfolio (₹ Crs.)	1,187